

IPOs in 2006: Experts give their picks

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With the midcap frenzy on, lets take a look at some IPOs of 2006. Investment Advisor, PN Vijay and Deven Choksey of KR Choksey Securities discuss which ones are still way above their issue price and which ones are languishing.

Excerpts from CNBC – TV18's exclusive interview with PN Vijay and Deven Choksey:

Q: One, which has clearly been a big winner from your basket is Educomp Solutions. It came at Rs 125, and is trading at Rs 372?

Vijay: Yes, this is a sweet company and nothing much was expected from them. But Educomp's business model is so attractive and right in tune with the times and just built on that. They have focused on education, they made a recent acquisition. True, it has gone up three times beyond the issue price, but investors have made money and that's the most important thing. People who invested in the stock took a bit of a risk, and they made handsome money. I still like the internet-based business model, which they have.

Q: One, which didn't quite work or worked for a bit and fizzled out is Solar Explosives. A Rs 190 issue now trading at Rs 134-140, do you think it will get back to reclaim all that lost ground?



Choksey: Yes, I think so because the company hasn't performed. It has underperformed by 20%, looking at the current market price at this point of time. But this is a powerful company as far as their business model is concerned. They are an ancillary to the mining sector, which I think is growing very well due to growth in the metal sector. At this point of time the company is available at quite an attractive level of around 13-14 P/E. Going forward, we believe that with a growth of around 50% and particularly with the coal mining business having the power sector as its biggest customer, I think this company has a major role to play. This is a backward integrated company and I believe it will cover up the lost price, which started after the sell off in May-June.

Q: Tantia Construction present only on the BSE, over an issue price of Rs 50, is still making good money. But is it way off its 52 week high?

Choksey: After the listing it went up quite dramatically and also came down equally badly. This company is into infrastructure-led-construction activities, particularly taking care of the bridges and roads sector. The company was promoted at a fairly good margin of earning for the investors at quite a lower price. So I think today, this company is being quoted at a handsome price compared to the offer price.

We believe that the model is right in place. Going forward, this company should progress well in the coming years also. With more than 40% growth and with a 6 times increase in the order book, visibility of earning is quite high for this company.

Q: BL Kashyap - still 42% increase from that issue price of Rs 685. What would your argument be for staying with it?

Vijay: Yes, it has got an excellent business model. Of course it reached very high levels in the boom and then its corrected considerably. They have created a niche for themselves in construction of malls, hospitals etc.

There are a number of developers in this country who are developing townships, malls etc, but they lack the expertise to construct and deliver on time. And that is where I think BL Kashyap's of the world come in. They have the technology and the project management skills and growth has been excellent.

Q: Indo Tech Transformers came in at Rs 130, went up quite a bit but then it corrected a third from its highs, would you hold on as they are still making money on its issue price?

Choksey: Yes, I will not only hold on but also buy this company. Once again it is ancillary to the power sector and a growing business. The company came out with an issue of around Rs 11-12 at that point of time. Today, on a forward basis, for the current year they are expected to do an EPS of around Rs 15-16 and the stock is available at around 10 P/E. So the company is quite interesting. The visibility of earnings once again is higher in this company, therefore it is a good investment opportunity at current level. It is available close to the offer price or a little higher than the offer price.

Q: Take us through Reliance Petroleum? That's clearly a very long gestation play and it has been since the issue came out. At current levels, what would your move be?

Vijay: Probably I will hold it at current levels. Reliance Petroleum, it is a start up and even as per the company's projections, they will be on stream by December 2008, and projects of this nature too slip a bit. So we do not see any dividend or any profits for the next three years.

I am really surprised that Ambani would go and ask for Rs 60 on a Rs 10 share for a start up like this. I am sure Dhirubhai Ambani would never have done it for the small shareholders. It has brought down the Reliance name a lot. The investment bankers were gung-ho about the share. But I think Rs 60 is the right price for it because investors, at the end of the day, want to see the colour of the money, and that is not going to happen very soon.

Q: What would you do with Deccan Aviation because that's left a real sour taste in the mouth of investors? It is 50% below its issue price; do you hold on, add some to average or just forget about it and get out?

Vijay: In Deccan, an aggressive investor could add because on the positive side they have an excellent business model; a low cost airline. That has almost overtaken Indian Airlines in terms of market share, next only to Jet in the domestic air space. So they are making losses. But at Rs 75 levels, aggressive investors could take positions because of the traction of that space, given all the negatives of high ATF (Aviation Turbine Fuel) cost etc.

Here again it was not quite correct to price this issue at Rs 150. The company is a huge loss making company; a Rs 10 share price at 15 times the face value. I am surprised that the merchant banks used the bull market, the period of a boom to quietly slip in an issue, when they knew very well that this share is worth only about Rs 75.

Disclosures:

Vijay: No, we do not have any of these four stocks.

Choksey: We may have investments in these companies. Our clients are definitely invested in these companies.